SANILAC TRANSPORTATION CORPORATION Carsonville, Michigan

Component Units' Financial Statements

Auditor's Report and Single Audit Report

September 30, 2004

Michigan Deptartment of Treasury 496 (2-04)

	iting F		cedure	s Rep	ort						
	ernment Type			√ Other	Local Governme		ORTATION C	ORP	County SAN	ILAC	
Audit Date 9/30/04)		Opinion 2/24/ 9			Date Accou	ıntant Report Submit	ted to State:			
We have accordar Financial	e audited the audi	ne S ts fo	tatements of r Counties and	the Goverr d Local Unit	nmental Accou s of Governme	unting Sta ent in Michi	nt and rendered ndards Board (igan by the Mich overnment in Mic	GASB) and thigan Departme	ne <i>Uniform</i> ent of Treasu	Reporting	orepared in Format for
2. We a	are certified	d pul	olic accountar	nts registere	d to practice in	Michigan	•				
	er affirm th		-	responses I	nave been disc	dosed in th	ne financial state	ements, includi	ng the notes	or in the r	eport of
You must	t check the	арр	licable box for	r each item l	below.						
Yes	✓ No	1.	Certain comp	oonent units	/funds/agencie	es of the lo	cal unit are excl	uded from the	financial sta	tements.	
Yes	√ No	2.	There are ac 275 of 1980)		deficits in one	or more	of this unit's un	reserved fund	balances/ret	ained ear	nings (P.A
Yes	✓ No	3.	There are in amended).	estances of	non-compliand	ce with the	e Uniform Acco	unting and Bu	udgeting Act	(P.A. 2 o	f 1968, a
Yes	✓ No	4.					either an order i gency Municipal		the Municipa	al Finance	Act or it
Yes	✓ No	5.		-			do not comply s amended [MC		requiremen	ts. (P.A. 2	:0 of 1943
Yes	√ No	6.	The local uni	it has been	delinquent in d	istributing	tax revenues that	at were collecte	ed for anothe	er taxing u	nit.
Yes	The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earne Yes No 7. pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfundin credits are more than the normal cost requirement, no contributions are due (paid during the year).										
Yes	✓ No	8.	The local ur (MCL 129.24		dit cards and	has not a	idopted an appl	icable policy a	as required l	oy P.A. 26	6 of 199
Yes	✓ No	9.	The local uni	it has not ad	lopted an inves	stment poli	icy as required b	y P.A. 196 of	1997 (MCL 1	29.95).	
We have	e enclosed	l the	following:		12.00			Enclosed	To Be Forward	ed Re	Not equired
The lette	er of comm	ents	and recomme	endations.							\checkmark
Reports	on individu	ıal fe	ederal financia	ıl assistance	programs (pro	ogram aud	lits).	✓			
Single A	udit Repor	ts (A	SLGU).					✓			
l l	Public Account										
ROBS Street Add		CAL	LUM, CPA'	S			City		State	ZIP	
	OX 779	<u> </u>	}		1	7	LAPEER		MI	48446	

3/31/05

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ROBSON AND McCALLUM

Certified Public Accountants

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Carole A. Robson, CPA · Scott A. McCallum, CPA · Members AICPA and MACPA

INDEPENDENT AUDITOR'S REPORT

Board of Directors Sanilac Transportation Corporation Carsonville, Michigan 48419

We have audited the component unit financial statements of the Sanilac Transportation Corporation, a component unit of the County of Sanilac, as of and for the year ended September 30, 2004 as listed in the table of contents. These financial statements are the responsibility of the management of the Corporation and the County of Sanilac. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements present fairly, in all material respects, the financial position of the Sanilac Transportation Corporation at September 30, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in the footnotes, the Corporation has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management Discussion and Analysis - For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, on October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2005 on our consideration of the Sanilac Transportation Corporation internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants, agreements and other matters.

Our audit was made for the purpose of forming an opinion on the component unit financial statements of Sanilac Transportation Corporation, County of Sanilac, taken as whole. The accompanying financial information listed as supplementary financial information in the table of contents, including the Schedule of Federal and State Financial Assistance as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations,* is presented for purposes of additional analysis and is not a required part of the financial statements of Sanilac Transportation Corporation. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Sanilac Transportation Corporation has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of, the basic financial statements.

Robson and McCallum February 24, 2005

SANILAC TRANSPORTATION CORPORATION STATEMENT OF NET ASSETS September 30, 2004

	<u>ASSETS</u>	
_	Current Assets	
	Cash and Cash Equivalents	\$ 207,468
	Accounts Receivable	3,693
	Due From Federal Sources	31,379
-	Due From State Sources	62,013
	Prepaid Expenses	27,538
-	Total Current Assets	\$ 332,091
	Property and Equipment	
	Land	\$ 49,336
****	Leasehold Improvements	32,371
	Furniture and Fixtures	78,394
	Equipment	47,496
	Vehicles	11,100
	Revenue	1,117,256
	Other	<u>28,869</u>
		\$ 1,353,722
	Less: Accumulated Depreciation	(663,785)
		1000,1007
	Net Capital Assets	\$ 689,937
_		
	Total Assets	\$ 1,022,028
_	<u>LIABILITIES</u>	
	Current Liabilities	
	Accounts Payable	A
	Compensated Absences	\$ 32,706
****	Accrued Wages	3,877
	The state of the s	8,059
	Total Current Liabilities	¢ 44.640
		\$ 44,642
	Other Liabilities	
	• · · · · · · · · · · · · · · · · · · ·	
	Compensated Absences	17 660
_	Compensated Absences	17,660
	Compensated Absences Total Liabilities	
_		<u>17,660</u> \$ 62,302
	Total Liabilities NET ASSETS	
-	Total Liabilities NET ASSETS Investment in Capital Assets	\$ 62,302
-	Total Liabilities NET ASSETS	\$ 62,302 \$ 689,937
_	Total Liabilities NET ASSETS Investment in Capital Assets Unrestricted	\$ 62,302
-	Total Liabilities NET ASSETS Investment in Capital Assets	\$ 62,302 \$ 689,937
-	Total Liabilities NET ASSETS Investment in Capital Assets Unrestricted	\$ 62,302 \$ 689,937

SANILAC TRANSPORTATION CORPORATION STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS Year Ended September 30, 2004

	Operating Revenues	\$ 390,021
_	Operating Expenses	1,034,794
	Operating Loss	\$ (644,773)
	Nonoperating Revenues	468,023
	Decrease in Net Assets	\$ (176,750)
_	Net Assets - October 1, 2003	1,147,668
_	Prior Period Adjustment	(11,192)
	Net Assets - September 30, 2004	<u>\$ 959,726</u>

SANILAC TRANSPORTATION CORPORATION STATEMENT OF CASH FLOWS Year Ended September 30, 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

-	Cash Flows From Operating Activities	
genen	Operating Revenue Payment to Suppliers Payment to Employees Net Cash Used by Operating Activities	\$ 387,712 (437,474) <u>(450,630)</u> \$ (500,392)
	Cash Flows From Non-Capital Financing Activities	
	Cash Paid to State for Fiscal Year 1999 in Excess of Amount Booked State Non-Operating Revenue Federal Non-Operating Revenue	\$ (11,192) 341,796 93,426
-	Net Cash Flows Provided by Non-Capital Financing Activities	\$ 424,030
	Cash Flows From Investing Activities Interest Earned	2,570
-	Net Decrease in Cash	\$ (73,792)
-	Cash - October 1, 2003	281,260
	Cash - September 30, 2004	207,468
	RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
7	Operating Loss	\$ (644,773)
	Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: Depreciation	
		165,382
_	(Increase) Decrease in Accounts Receivable Prepaid Expenses	(2,309) (6,140)
-	Increase (Decrease) in Accounts Payable Accrued Payroll Compensated Absences	(4,659) (11,210)
	Net Cash Used by Operating Activities	3,317 \$ (500,392)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

DESCRIPTION OF REPORTING ENTITY:

As a component unit of the County of Sanilac, the Corporation has entered into a contract with the County to operate a county-wide transportation system with financial assistance provided by Act No. 51 of the Public Acts of 1951, Section 18 of the Urban Mass Transportation Act of 1964.

The accounting policies of Sanilac Transportation Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the more significant policies.

SCOPE OF REPORTING ENTITY:

In accordance with the provisions of the Governmental Accounting Standards Board Statement #14, "Defining the Governmental Reporting Entity," the component unit financial statements of Sanilac Transportation Corporation contain all the Corporation's executive or legislative branches. Control by or dependence on the Corporation was determined on the basis of appointment of governing authority, budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the Corporation, obligations of the Corporation to finance any deficits that may occur, receipt of significant subsidies from the Corporation, disposition of surplus funds and scope of public service.

The Corporation has no oversight responsibility, accordingly, there are no other governmental entities included in its general purpose financial statements.

BASIS OF ACCOUNTING:

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable; expenditures are recognized when they become a liability. Enterprise funds are accounted for using the full accrual basis of accounting. The full accrual basis of accounting provides that revenues are recorded when earned and expenditures are recorded when the liability is incurred.

PROPRIETARY FUNDS:

<u>Enterprise Funds</u> - Enterprise Funds are used to account for operations (A) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (B) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

CASH, CASH EQUIVALENTS, AND INVESTMENTS:

For purposes of the statement of cash flows, demand deposits and short-term investments with a maturity date of three months or less when acquired are considered to be cash equivalents.

CASH AND INVESTMENTS:

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Corporation. Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than fifty percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

ACCOUNTING CHANGE

Effective October 1, 2003, the Corporation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement NO. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Changes to the financial statements as a result of GASB No. 34 are as follows:

The statement of cash flows was prepared using the direct cash flow method instead of the indirect cash flow method.

RISK FINANCING:

The Sanilac Transportation Corporation is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; and errors and omissions. The Corporation is a member of the Michigan Transit Pool (a group self insurance pool) to account for and finance these risks of loss. Currently, the pool has two separate loss protection programs known as the Liability Coverage Program and the Direct Property Damage Coverage Program. The Liability Coverage Program provides coverage for motor vehicle liability as required by state law and general liability coverage. The Direct Property Damage Coverage Program provides coverage for collision losses, comprehensive losses, and losses of use.

Payments ("premiums") charged to members participating in the Liability Coverage Program and the Direct Property Damage Coverage Program are determined in amounts pursuant to cost allocation plans for each program. However, both of the programs involve the transferring of risk of loss amongst members, and premiums are subject to retrospective adjustments to prior years. Since liability claims can remain pending for many years, several retrospective adjustments for each program year are likely. Under most circumstances, the Corporation's maximum loss per occurrence is limited as follows:

	DEPOSIT <u>PREMIUMS</u>	MAXIMUM RETENTION PER OCCURRENCE	COVERAGE LIMIT PER OCCURRENCE
Motor vehicle and General Liability	\$ 38,743	\$ 100,000	\$ 1,000,000
If a loss is greater than the retention amoun the difference is covered by excess insuran	it, ce carriers.		
Direct Property Damage	\$ 4,224	\$ 10,000	Book Value of Property

Members pay the first \$2,000 of each loss. The next \$8,000 is also the member's responsibility, but comes from the member's premium deposit. Loss amounts above \$10,000 are pooled, and shared between all program members, based upon the relative book values of each respective member. Comprehensive losses over \$50,000 are covered by the excess insurance carrier.

The Corporation reports its required contribution to these programs as insurance expense for the period of coverage. Additional assessments which are considered likely are accrued in accordance with FASB Statement No. 5. Any dividends or returns of contributions are recognized as a reduction of expense at the time the dividend is declared.

PROPERTY AND EQUIPMENT:

Property and equipment are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method. For all fixed assets purchased with grant funds, depreciation is charged against contributed capital. For all assets purchased with operating funds, depreciation is expensed.

DETAILED NOTES ON ALL FUNDS:

CASH AND INVESTMENTS:

The Corporation's deposits are in accordance with statutory authority.

At September 30, 2004, the balance sheet carrying amount of deposits was \$207,468. The bank balance as of September 30, 2004 was \$216,669, of which \$212,144 was covered by FDIC insurance and \$148 was insured by the National Credit Union Administration.

In accordance with GASB Statement 3, cash deposits and investments are classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the Local Unit or its agent in the Unit's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Local Unit's name.

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in Local Unit's name).

Cash deposits are classified in risk category number three.

At no time during the fiscal year did the Corporation's pension plan investment portfolio use derivative instruments or products.

ACCOUNTS RECEIVABLE:

Receivables have been recognized for all significant amounts due the Corporation. Valuation reserves have not been provided because the collection thereof is not considered doubtful.

FIXED ASSETS:

Major classes of property and equipment consist of the following:

	USEFUL LIVES	PURCHASED WITH CORPORATE FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land Furniture and Fixtures Leasehold Improvements Vehicles Equipment Subtotal	N/A 5-10 Years 10-20 Years 5-7 Years 5-10 Years	\$ 49,336 16,228 32,371 26,996 8,135 \$ 133,066	\$ -0-62,166 1,119,129 39,361 \$ 1,220,656	\$ 49,336 78,394 32,371 1,146,125 47,496 \$ 1,353,722
Less: Accumulated Depreciati Net Property and Equ	on ipment	(62,171) <u>\$70,895</u>	<u>(601,614)</u> <u>\$ 619,042</u>	(663,785) \$ 689,937

When federal or state funded assets are withdrawn from public transportation service, the disposition of the asset is determined by the Michigan Department of Transportation. There were no capital assets purchased or withdrawn from service during the fiscal year.

DETAILED NOTES ON ALL FUNDS: (Continued)

DEFERRED COMPENSATION:

Sanilac Transportation Corporation offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of Sanilac Transportation Corporation for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in Sanilac Transportation Corporation's financial statements. Employer contributions for the year were \$4973.

COMPENSATED ABSENCES:

Vacation leave is earned in varying amounts depending on the employee's number of years of service and is made available to the employees monthly, not to exceed a total accumulation of twenty days. Sick leave is accumulated at the rate of ½ day for each month of service, not to exceed a total accumulation of twenty days each is determined on the employee's anniversary date.

USE OF ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RIDERSHIP INFORMATION:

Ridership information is recorded daily. The bus odometers are read each evening by the manager and the mileage for that day is recorded on the respective bus mileage log. In addition, each day the driver records the number and type of riders on a driver's log. Drivers' logs are turned in to the manager at the end of the day. These records provide the ridership figures for the quarterly operating reports submitted to the State.

DESCRIPTION OF LEASING ARRANGEMENT:

The Corporation conducts all of its operations from leased facilities which include an office and a storage building. The lease is classified as an operating lease. The rental payments under the terms of the lease are based upon a monthly minimum rental. The Corporation can amend or extend the lease terms by endorsement of the lessor and lessee. The Corporation is responsible for liability and fire loss insurance and utilities on leased facilities. The status of the lease as of September 30, 2004 is on a month to month basis at a rate of \$1500 per month.

PRIOR PERIOD ADJUSTMENT:

Beginning net assets have been adjusted to reflect a change in state reimbursement for the fiscal year 1998-1999.

SANILAC TRANSPORTATION CORPORATION OPERATING REVENUES Year Ended September 30, 2004

Schedule 1

-	Operating Revenues	
-	Special Transit Fares Customer Fares and Ticket Sales Freight Income	\$ 330,725 38,092 75
	Non-Transportation Revenue	
-	Refunds and Expense Reimbursements Contributed Services Vehicle Rental	1,918 14,259 952
	Other Non-Transportation Revenue	4,000
	Total Operating Revenues	\$ 390.021

\$ 390,021

SANILAC TRANSPORTATION CORPORATION OPERATING EXPENSES

Year Ended September 30, 2004 Schedule 2

			<u>OPERATIONS</u>		MAINTENANCE		GENERAL NISTRATION	TOTAL SYSTEM	
	Operating Expenses								
	Labor								
	Operator Wages	\$	274,725	\$	-0-	\$	-0-	\$	274,725
	Other Wages		21,944	•	31,269	Ψ	51,985	φ	105,198
_	Dispatcher Wages		62,814		0.,200		31,303		62,814
	Fringe Benefits		146,963		15,416		13,001		175,380
	Services		1.400		00.044		·		
	33.1.333		1,422		22,044		16,751		40,217
	Materials and Supplies Consumed								
	Fuel and Lubricants		71,791		•				71,791
	Tires and Tubes		6,188						6,188
	Other Materials and Supplies		3,443		27,371		5,247		36,061
-	Utilities		2,372		4,227		8,305		14,904
	Casualty and Liability Costs Premiums for Public Liability								
_	and Property Damage Insurance		48,304						48,304
	Premiums - Other Corporate Insurance						7,009		7,009
	Miscellaneous								
	Travel, Meetings, and Training		217		289		6,642		7,148
	Dues and Subscriptions						1,037		1,037
	Other Expenses		478		20		138		636
_	Leases and Rentals				12,000		0.000		
	Depreciation and Amortization				12,000		6,000		18,000
							<u>165,382</u>		<u> 165,382</u>
	Total Operating Expenses	<u>\$</u>	640,661	\$	<u>112,636</u>	\$	281,497	<u>\$ 1</u>	,034,794

SANILAC TRANSPORTATION CORPORATION NONOPERATING REVENUES Year Ended September 30, 2004 Schedule 3

Nonoperating Revenues State of Michigan Grants

_	Operating Assistance (Act 51) 2003 - 2004 Capital Contract 01-0925	\$ 364,526 671
-	Total State Grants	<u>\$ 365,197</u>
	Federal Grants	
_	U.S. DOT Operating Grant - Section 5311	
_	Contract #2002 - 0083/Z6 Contract - 01-0925 Rural Transit Assistance Program	\$ 94,072 2,684 3,500
	Total Federal Grants	<u>\$ 100,256</u>
	Interest Income	2,570
-	Total Nonoperating Revenues	<u>\$ 468,023</u>

SANILAC TRANSPORTATION CORPORATION SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS Year Ended September 30, 2004 Schedule 4

_		RURAL TRANSIT ASSISTANCE <u>PROGRAM</u> <u>OPERATIONS</u>					<u>TOTAL</u>		
-	Labor Fringe Benefits Services Materials and Supplies Utilities Casualty and Liability Costs Miscellaneous Expense Lease and Rentals Depreciation	3,5	-0- 500	\$	442,737 175,380 40,217 114,040 14,904 55,313 5,321 18,000 165,382	\$	442,737 175,380 40,217 114,040 14,904 55,313 8,821 18,000 165,382		
		\$ 3,5	<u>500</u>	<u>\$ 1</u>	,031,294	<u>\$</u>	1,034,794		

SANILAC TRANSPORTATION CORPORATION NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS Year Ended September 30, 2004 Schedule 5

	Expenses	FEDERAL SECTION 5311	STATE OPERATING <u>ASSISTANCE</u>
	Labor	¢ 440.707	0 440 707
	Fringe Benefits	\$ 442,737 475,280	\$ 442,737
	Services	175,380 40,217	175,380
	Materials and Supplies	40,217 114,040	40,217
_	Utilities	14,904	114,040
	Casualty and Liability Costs	55,313	14,904 55 212
	Miscellaneous	5,321	55,313 5 221
	Leases and Rentals	18,000	5,321 18,000
	Depreciation	<u>165,382</u>	165,382
	Total Expenses	<u>\$ 1,031,294</u>	\$ 1,031,294
	Less: Cost of 2002-2003 Audit	¢ 0.050	•
	Ineligible Dues	\$ 3,950	\$ -0-
	Depreciation	212	212
	•	<u> 157,726</u>	<u> 157,726</u>
	Total Ineligible Expenses	\$ 869,406	\$ 873,356
gira n	Less: Non-Transportation Revenue	<u>\$ 10,300</u>	<u>\$ 10,300</u>
	Net Eligible Expenses	<u>\$ 859,106</u>	<u>\$ 863,056</u>
	Maximum Section 18 Reimbursement (10.95%)	<u>\$ 94,072</u>	
	Preliminary Reimbursement (42.236619648%)		<u>\$ 364,526</u>
			<u>.</u>
			
	MANDATORY FLOOR: State operating assistance for fiscal year 1997		<u>\$ 311,240</u>

SANILAC TRANSPORTATION CORPORATION **DETAIL OF INELIGIBLE EXPENSES AND REVENUES**

Year Ended September 30, 2004 Schedule 6

INELIGIBLE EXPENSES:

Depreciation on assets purchased with grant fund monies and required local match is an ineligible expense. A percentage of dues paid to MASSTrans are ineligible.

NON-TRANSPORTATION REVENUE:

Freight tariffs and expense reimbursements under Michigan Works and other local agreements are deducted as ineligible project revenue for Federal Section 5311 and State Operating Assistance.

Rental Income on Maintenance Vehicle	\$	952
Operating Costs Reimbursed by Contract #01-0925	•	3,355
Freight Income		75
Costs Reimbursed under Michigan Works Program		4,000
Insurance Refunds and Other Expense Reimbursements	-	1,918
Total Non-Transportation Revenue	\$	10.300

NOTE:

Since the Company did not expend more than \$300,000 in federal funds during the fiscal year 2003, the \$3950 cost of the audit is not eligible for federal reimbursement.

\$ 10,300

SANILAC TRANSPORTATION CORPORATION MILEAGE DATA (UNAUDITED) Voor Ended Sentember 20, 2004

Year Ended September 30, 2004 Schedule 7

•	PUBLIC TRANSPORTATION MILEAGE
Demand - Response	
1st Quarter - December 31, 2003 2nd Quarter - March 31, 2004 3rd Quarter - June 30, 2004 4th Quarter - September 30, 2004	109,384 105,730 114,247
Total Demand - Response	<u>432,252</u>
Total Operation	<u>432,252</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reasonable method for recording vehicle mileage.

SANILAC TRANSPORTATION CORPORATION SCHEDULE OF VEHICLE HOURS AND PASSENGERS (UNAUDITED) Year Ended September 30, 2004 Schedule 8

_		VEHICLE* HOURS	REGULAR <u>PASSENGERS</u>	SENIOR <u>PASSENGERS</u>	HANDICAPPED PASSENGERS
	- Response				
1st Qua	rter - December 31, 2003	5,197	3,980	789	16,932
2nd Qua	ırter - March 31, 2004	3,670	3,639	757	16,082
= 3rd Qua	rter - June 30, 2004	5,178	3,224	1,992	16,310
4th Qua	rter - September 30, 2004	4,714	3,819	1,682	<u> 15,029</u>
T	otal Demand - Response	<u> 18,759</u>	<u> 14,662</u>	5,220	64,353
T(otal Operation	18,759	<u> 14,662</u>	5,220	<u>64,353</u>

See Auditor's Report and Notes to the Financial Statements.

^{*}Vehicle hours represent the total hours per vehicle times the number of vehicles.

The methodology used for compiling passengers has been reviewed and found to be an adequate and reasonable method for recording ridership.

SANILAC TRANSPORTATION CORPORATION SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE Year Ended September 30, 2004 Schedule 9

ACCRUED RES (DEFERRED) REVENUE AT NTS 09/30/04	\$ 15,145 5,262	242	\$ 31,379	\$ 31,786 8,885 5,896 5,254	10,192 -0-	\$ 62,013	\$ 93,392
CURRENT YEAR EXPENDITURES AND ADJUSTMENTS	\$ 94,072	2,684 3,500	\$ 100,256	\$ 364,526	3,780 671	\$ 368,977	\$ 469,233
CURRENT YEAR RECEIPTS/ REVENUE RECOGNIZED	\$ 78,927 7,569	988 2,684 3,258	\$ 93,426	\$ 332,740 12,165	671	\$ 345,576	\$ 439,002
(DEFERRED) REVENUE <u>10/1/03</u>	\$ 12,831 10,730	8886	\$ 24,549	\$ 21,050 5,896 5,254	(3,780)	\$ 38,612	\$ 63,161
PROGRAM OR AWARD AMOUNT	\$ 94,072	73,760	\$ 171,332	\$ 364,526	18,440	\$ 382,966	\$ 554,298
STATE GRANTOR <u>NUMBER</u>	02-0083/Z6 02-0083/Z4 02-0083	01-0064 01-0925			01-0925		
FEDERAL CFDA <u>NUMBER</u>	20.509	20.509 20.509					
FEDERAL GRANTOR/PASS THROUGH GRANTOR PROGRAM TITLE Federal Transit Administration Passed through Michigan Department of	Transportation Operating Assistance - Section 5311	Capital Assistance - 5311 Rural Transit Assistance Program	Total Federal Financial Assistance	Michigan Department of Transportation Operating Assistance - Act 51, 2003-04 Operating Assistance - Act 51, 2002-03 Operating Assistance - Act 51, 2001-02 Operating Assistance - Act 51, 2000-01 Operating Assistance - Act 51, 1999-00	Operating Assistance - Act 51, 1998-99 Capital Assistance	Total State Financial Assistance	Total Federal and State Financial Assistance



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Report on Compliance with Requirements
Applicable to each Major Program and Internal Control
Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Sanilac Transportation Corporation
Carsonville, Michigan

Compliance

We have audited the compliance of Sanilac Transportation Corporation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal and state programs for the year ended September 30, 2004. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of Sanilac Transportation Corporation's management. Our responsibility is to express an opinion on Sanilac Transportation Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United states; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about Sanilac Transportation Corporation's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Sanilac Transportation Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Sanilac Transportation Corporation is responsible for establishing and maintaining effective control over compliance with requirements of laws, regulations, contract, and grants applicable to federal programs. In planning and performing our audit, we considered Sanilac Transportation Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal and state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities.

Robson and McCallum February 24, 2005



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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors Sanilac Transportation Corporation Carsonville, Michigan

We have audited the component unit financial statements of Sanilac Transportation Corporation as of and for the year ended September 30, 2004, and have issued our report thereon dated February 24, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Sanilac Transportation Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Sanilac Transportation Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and it operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities.

Robson and McCallum February 24, 2005